



United States Department of the Interior

NATIONAL PARK SERVICE

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MAR 16 2006

(2410)

Memorandum

To: Regional Concession Chiefs

From: Concession Program Chief *Galinda 16 Mar 2006*

Subject: Convenience Store Markup Percentages & Competitive Market Declaration for Retail Merchandising for 2006 Operating Season

As you know, the National Park Service (NPS) has a legal and fiduciary responsibility to monitor and approve prices charged by concessioners to ensure that the cost to the visitor is not excessive and is comparable to rates charged outside the parks. The September 2002 Concession Management Rate Approval Guide, and subsequent amendments, identifies approved methods for establishing rates. In the past, rate methods for retail included Markup and Competitive Market Declaration. The two principal retail groups that used these methods were convenience items and merchandise items.

Convenience Items

For *convenience items*, the Markup method has been used. The resource for this method dates to 1998 with the 5-year partnership between Convenience Store News (CSN) and the National Association of Convenience Stores (NACS). During this partnership, which ended in 2002, the NACS/CSN Industry Databank was developed. It contained valid survey result findings, which were derived from a joint questionnaire sent to all NACS members and a sample of CSN retailer subscribers. This databank was the source for the State of the Industry (SOI) annual reports from 1998 through 2001. Beginning in 2003, NACS became responsible for the survey and retained ownership of the resultant data.

The NACS SOI 2005 Annual Report depicts industry gross margins by product category, which yields Markup. The formula to calculate selling price using Markup, along with an example, is attached for your convenience. Also, note that the list includes categories for typical merchandise and park staff should review the categories with the concessioner to determine which categories will be used and document the categories used for approved rates. If you have merchandise that does not logically fit into the identified categories, please contact Wendy Berhman, 303/987-6913, for support in determination of the appropriate category.

Merchandise Items

Until 1998, *merchandise items* were priced according to gross margins published by the National Retail Federation (NRF). The NRF discontinued publishing this data reportedly because a significant number of retailers believed that by sharing this data, they could be violating antitrust laws. It is important to note that the larger retailers still use the Markup method in their pricing strategies, but they rely on proprietary information. Consequently, smaller retailers who relied on the NRF's reported gross margins began to rely more on their competitive market surveys. Therefore, the use of the Markup method to determine retail prices for *merchandise items* was determined to no longer be a viable rate method for merchandise being sold in our parks

Of the other methods approved per NPS-48, the most appropriate option for *merchandise items* is Competitive Market Declaration (CMD). As you know, we pilot-tested the CMD method for *merchandise items* during the 2000 season, and the CMD method for *merchandise items* has been encouraged for use in subsequent seasons. Many of you have also been using CMD for other services for many years and are authorized to continue to do so under the approved rate methodology outlined in NPS-48.

Rate Approval Program

We are currently reviewing and updating the Concession Review Program, which includes the Rate Approval Program through the Standards, Evaluations and Rate Approval (SERA) initiative. Our business advisors will be reviewing the existing rate approval processes and methods this summer, including Markup and CMD methodologies. Our goal is to ensure our methods are the most appropriate and efficient while embracing industry best practices. During this review and update period, we will be soliciting feedback from all of you and encourage you to share any comments or concerns on the rate program or methodologies for consideration.

Summary

In summary, the Markup method will remain in effect for the 2006 season for *convenience items* based upon the NACS SOI 2005 Annual Report. For *merchandise items*, parks are encouraged to continue to use the CMD method as outlined in the September 2002 Rate Approval Guide for *merchandise items*.

Should you have any questions, please do not hesitate to contact Wendy M. Berhman at wendy_berhman@nps.gov or 303/987-6913.

Attachments

MARKUP METHOD (FOR CONVENIENCE ITEMS)

The widely accepted method of pricing retail convenience items is to apply a markup to product costs. This method of rate approval should only be used for retail *convenience items* and not for service-related items for which quality or amenities are factored into rates.

This rate approval method uses industry gross margins by product category obtained through a nationally recognized source, i.e., the State of the Industry (SOI) Annual Report published by the National Association of Convenience Stores (NACS). The use of this source ensures comparability with the private sector. Minor variances from the published report may be allowed under certain circumstances, which require approval on a case-by-case basis by the park superintendent.

The exhibit below depicts industry gross margins by product category in the NACS SOI 2005 Annual Report and the resultant Markup percentages. Only these gross margins converted to markup should be used for rate reviews. Concessioners should be given copies of the updated gross margins and Markup percentages quickly so they can use them to prepare or adjust their 2006 rates. Markups are broken down into merchandise and foodservice categories. Some merchandise sold by concessioners may not be listed or could potentially fit into more than one category. The exhibit below contains examples of the various categories.

It is important that this attachment be used when identifying markup categories to ensure consistency in rate reviews. If your concessioner submits merchandise and/or foodservice items that do not fit neatly into a category, please contact Wendy Berhman at the Washington Office Concession Program for assistance so that consistency can be assured. Additionally, it is important that both the concessioner and park document the categories used for all items to aid future rate approvals. Concessioners and NPS staff should agree on a reasonable implementation period for new or updated rates and the agreement should be documented in the park's concession files with a copy provided to the concessioner.

When using the Markup method to determine the maximum selling price, the following formula should be used:

$$\text{Cost} * (1 + \text{markup}) = \text{selling price}$$

For example, if the concessioners' cost for cough medicine is \$4.50, you would refer to the attached Markup table, identify that the markup percent for health and beauty care is 71.0 percent, and use these numbers to identify the selling price:

$$\$4.50 * (1 + 0.71) = \$7.70$$

Rounding is acceptable and common. The concessioner may propose to sell the cough medicine for \$7.75. This would be in accordance with the approved NPS procedure for rounding as stated

in a WASO Concession Program memo dated January 21, 2003, (replacing the guidance in the 2002 Concession Management Rate Approval Guide):

Retail Price	Round to Nearest
Below \$10.00	\$0.25
\$10 to \$49.99	\$0.50
\$50 and Over	\$1.00

Also permitted will be traditional consumer retail pricing techniques which creates prices ending in forty nine cents (\$0.49) and ninety-nine cents (\$0.99), whichever is closest and most appropriate using the above standards.

Exhibit 1 - State of the Industry 2005 Annual Report

Category	Gross Margin	Markup
Merchandise	Percentage	Percentage
2004		
Cigarettes	19.53%	24%
Other Tobacco	27.56%	38%
Packaged Beverages(non alcoholic)	38.84%	53%
Beer	20.91%	26%
Wine	28.01%	39%
Liquor	23.52%	31%
Edible Grocery	35.48%	55%
Non-edible Grocery	37.56%	60%
Perishable Grocery	33.58%	51%
Frozen Foods	35.79%	56%
Packaged Ice Cream/ Novelties	28.42%	40%
Candy	43.39%	77%
Salty Snacks	33.89%	51%
Packaged Sweet Snacks	32.56%	48%
Alternative Snacks	37.24%	59%
Fluid Milk Product	23.82%	31%
Other Dairy and Deli	31.24%	45%
Packaged Bread	28.98%	41%
Health & Beauty Care	41.56%	71%
General Merchandise	37.79%	61%
Automotive Products	28.94%	64%
Automotive Services	34.53%	53%
Publications	21.80%	28%
Ice	59.51%	147%
Prepaid	25.50%	34%
Food Service		
Food Prepared On-Site	46.65%	87%
Commissary/ Packaged Sandwiches	37.12%	59%
Hot Dispensed Beverages	55.90%	127%
Cold Dispensed Beverages	54.26%	119%
Frozen Dispensed Beverages	54.77%	121%

Source: National Association of Convenience Stores

COMPETITIVE MARKET DECLARATION PROGRAM (MERCHANDISE ITEMS)

This rate method reduces the administrative burden of rate approvals where the concessioner operates in a competitive market, where the concessioner derives no competitive advantage from the location on park land, or when prices for items or services are routinely negotiated between the buyer and seller. Parks are encouraged to give this process strong consideration as a means of simplifying the rate approval process when it can be justified. Examples of when a business would qualify follow.

COMPETITIVE MARKET SITUATIONS

The following three scenarios are representative of situations where a competitive market declaration could be used:

Competitive Market

A highly competitive market nearby could require that the concessioner compete with other businesses, which would ensure market pricing. A concession restaurant in an urban park may compete directly with other nearby restaurants and have little or no competitive advantage due to location. On the other hand, a marina on the same property could enjoy a substantial competitive advantage if it provides the only access to a nearby body of water. There could be a competitive market for overnight accommodations adjacent to a park while a park location could still provide a competitive advantage if many visitors want to stay in the park.

No Competitive Advantage

For example, sales of antiques may derive little or no competitive advantage from being in a park, since individuals often travel substantial distances to obtain antiques, and the place of purchase is of less importance than the character of the item.

Prices Routinely Negotiated

The price of consignment items, e.g., antiques, boats, and many other products, is often negotiated between buyer and seller.

INITIATING A COMPETITIVE MARKET DECLARATION

The decision to use a competitive market declaration should not be made lightly, as it reduces the superintendent's control of the concessioner but does not reduce the responsibility for ensuring that rates are fair and reasonable and in accordance with the law. The decision-making process must be well documented and should provide a thorough justification for this method of rate approval.

The declaration should be included as part of the approved rate schedule. The format of the declaration may be adjusted to meet individual needs and circumstances; however, it should include, as a minimum, a statement to the effect that:

- (1) The concessioner operates in a competitive market and derives no advantage from being in the park, and competitive market forces are the determining factor of the concessioner's rates.
- (2) The concessioner's rates may be adjusted without the specific approval of the superintendent but are subject to review to ensure that they remain reasonable in comparison to similar services offered outside the park.
- (3) The declaration must be reviewed annually and the use of this method may be rescinded if the situation changes.

See the following Exhibit for an example of a declaration and a rate schedule sheet.

Exhibit 2 - Competitive Market Declaration and Rate Schedule Sample

Catfish Marina Services, Incorporated
Waterhole National Recreation Area

Catfish Marina Services, Inc. is an authorized dealer for Glaston and Sea Ray boats and sells used Starry rental boats. As a boat sales dealer Catfish Marina Services directly competes for customers with the following businesses:

Rainbow Boats, Holiok, WY, 7 miles away
Everude Sales, Holiok, WY, 7 miles away
Lemon Leased Boats, Tidewater, WY, 3 miles away
Park Boats, Boundary, WY, 2 mile away

The distance between Catfish Marina at Catfish Basin and its competitors is minimal. All of the above firms sell boats in the same class as those offered by the concessioner. In addition, the selling price of boats is generally negotiated between buyer and seller. The many variables that enter into boat prices, such as changes in season, interest rates, model year, and salesmanship make the application of fixed prices unrealistic. It is determined that the concessioner's ability to compete is not enhanced by the location in Waterhole National Recreation Area. Prices are comparable based on competition and negotiation.

Use of a competitive market declaration for approving rates for this service would be authorized. Rates could be adjusted without the specific approval of the superintendent, but they are subject to review to ensure that they remain comparable to similar services offered outside Waterhole National Recreation Area.

This declaration will be reviewed annually and the use of this method could be rescinded if the superintendent determines that the situation has changed. The decision to change rate approval methods is at the discretion of the superintendent.

Rate Schedule

Boat Sales - Competitive Market Declaration. Boats sold by Catfish Marina Services, Inc., at Catfish Basin, Waterhole Recreation Area, are vended in a competitive market. The prices charged for boats are negotiated between buyer and seller. In consideration of these factors, it is declared that rates charged by the concessioner are comparable and approved. Catfish Marina, Inc. may price boats competitively without further approval from the National Park Service.

This declaration is for (insert inclusive dates).

Superintendent

Date
